Assets in Action

HOW CATHOLIC INSTITUTIONS ARE USING THEIR INVESTMENTS TO COUNTER CLIMATE CHANGE

Arabella Advisors

INTRODUCTION

Pope Francis has issued a call to action on climate change, prompting praise from concerned citizens worldwide and causing many Catholic organizations to wonder what they can do to help heal the warming planet. Meanwhile, a variety of Catholic organizations have been using their investments to do so in creative ways, offering examples that other groups may wish to follow.

IN HIS RECENT ENCYCLICAL, *LAUDATO SI:* *On Care for Our Common Home*, Pope Francis states that climate change "represents one of the principal challenges facing humanity in our day." He calls for swift action—from reducing individual consumption to hastening the transition toward a clean energy future. Climate change, he writes, is driven in part "by a model of development based on the intensive use of fossil fuels." Yet the Pope also offers hope for a path forward. "All is not lost. Human beings, while capable of the worst, are also capable of rising above themselves, choosing again what is good, and making a new start."

As Catholic organizations explore how they can answer Pope Francis's call, many have looked at their investable assets through a new lens, asking themselves: How can we align our investments with our mission and values? How might our resources be used to meet both the financial and moral imperatives to move toward a clean energy economy? And perhaps most importantly: How do we start?

Catholic organizations have a long history of socially responsible investing, which applies positive and negative screens to investments to align them with Catholic values, while also investing in efforts to address critical societal challenges, including the clean energy sector. A growing number of Catholic and other faith-based institutions are also divesting their assets from fossil fuels, recognizing the inherent negative social and environmental impact of burning coal, oil, and gas. As of September 2014, 57 faith-based institutions representing $1.4 billion in assets had divested of fossil fuels. Catholic organizations are also using their assets to influence companies whose shares they own, looking to minimize negative environmental impacts of corporate practices and advance emissions reductions.

All of the Catholic organizations profiled in this report are using their assets in innovative ways to act on climate change, aligning their investments with their mission. Each has crafted an approach that allows the organization to meet both its fiduciary responsibility and mission goals.

- The Franciscan Sisters of Mary is divesting its assets of fossil fuels, while maintaining enough shares to engage some companies as climate advocates. It is also making significant investments in clean energy, among other sectors.
- The University of Dayton has divested its significant portfolio of fossil fuels and is exploring opportunities for investment in clean and renewable energy.
- The Sisters of St. Francis of Philadelphia is a leader within shareholder advocacy, using its voice to promote business practices that protect the earth.

The experiences of each of these entities can offer important insights for Catholic organizations looking to answer the Pope's call, as well as others who are looking to use their assets to drive their mission.

FRANCISCAN SISTERS OF MARY

USING MULTIPLE FINANCIAL TOOLS TO ADVANCE ITS MISSION OF CARE FOR CREATION

Throughout its history, the Franciscan Sisters of Mary (FSM), a congregation of women religious in St. Louis, Missouri, has worked to meet the needs of the times. When it was established in 1872, its members ministered to the sick in their homes. Today, the congregation's nonprofit health system serves communities across the Midwest through one of the largest integrated delivery systems in the nation. As its members have gotten older and aren't as able to work on the ground as they have in the past, the congregation has sought ways to continue to meet the needs of others—and our earth, says John O'Shaughnessy, the congregation's CEO and CFO. One of the ways it is furthering its mission of compassionate care for Creation is by using its assets to curb climate change through divestment, impact investing, and shareholder advocacy.

Investing for Impact

"I'm kind of a stickler for rules," admits O'Shaughnessy. So when he was reviewing the organization's social responsibility investment policy in 2009 and realized that its investment program wasn't producing the social impact the guidelines called for, he presented two options to the congregation: rewrite the guidelines or discover ways to adhere to the ones they had. FSM enthusiastically opted to find ways for its investments to truly further its mission.

"The leadership team was very much engaged throughout the process," says O'Shaughnessy. The organization's first question was what expertise it would need. In 2012, the leadership hired Imprint Capital to help FSM develop a strategy, construct a portfolio, and monitor financial and mission/impact performance. O'Shaughnessy then presented the strategy to the congregation, including specific examples of the kinds of investments it would make, how it would measure social and environmental benefits, and how this tool could help realize the organization's mission around the globe. "Without exception, members of the congregation were absolutely enthused," he says.

Along with its new impact-focused consultants, FSM worked with its existing financial advisors at Merrill Lynch to revise its investment policy, which now dedicates $10 million to impact investments. The allocation focuses primarily on private market investments, including private equity and debt, absolute return/credit funds, and real asset vehicles. To reduce overall risk, it established diversity parameters, including allocating 25 percent to investments that mature in five years or less. The investments' geographic reach spans from the United States

INVESTMENTS IN ACTION:
M-KOPA SOLAR

In 2013, FSM made a $250,000 direct investment in M-KOPA, a consumer lending company that provides pay-as-you-go solar energy services for off-grid customers in Kenya, Tanzania, and Uganda. When FSM first invested in the enterprise, it had been serving 35,000 homes; today it reaches 200,000 households. M-KOPA employs more than 650 full-time staff and has a network of 1,000 direct sales agents across East Africa. By creating an affordable way for off-the-grid households to access solar power, the company has helped enhance its customers' quality of life. Its system also has a rechargeable radio, allows for cell-phone charging, and frees people from depending on kerosene, a dangerous and expensive source of energy. Imprint Capital estimates that, in addition to the clean energy produced and the greenhouse gases reduced, FSM's investment has contributed to M-KOPA extending its reach to 19,214 people.

to Latin America and sub-Saharan Africa, and the investments address issues such as detoxifying the environment, sustainable land use, clean and renewable energy, energy efficiency, natural resource stewardship, and waste and pollution reduction. "This diversification in our mission investments gives us even greater confidence in how well we will do in terms of return," says O'Shaughnessy. "In fact, we are convinced that we are in a better position in terms of our overall risk/return profile than before we started investing for impact."

FSM's investments include:

- A $750,000 commitment to Liberation Capital Renewable Energy Fund, which makes direct investments into projects that convert waste, such as discarded plastics and used tires, into high-value products
- A $1 million commitment to Clean Fund Holdings, a private debt fund that allows commercial properties to install energy efficient and renewable solutions with no upfront costs via property assessed clean energy bonds
- A $725,000 commitment to the Global Energy Efficiency and Renewable Energy Fund, a private equity fund of funds that invests in clean energy projects in emerging-market countries
- A $500,000 commitment to Lyme Forest Fund, a private real estate fund managed by a timber company that is a proactive steward of the land, paying particular attention to conserving soil, water, and wildlife resources

While the portfolio remains in the early years of realizing social impact, Imprint estimates that its first investments have produced 529,250 kWh of clean energy (enough to power more than 33 homes for a year), reduced greenhouse gases by 1,788 tonnes CO_2 (equivalent to the annual emissions from 376 cars), reduced energy costs of low-income households in East Africa by $269,095, and sustainably managed 6,537 hectares of land. It expects its impact metrics to expand as its portfolio grows and is fully funded.

Divestment

Like many Catholic congregations, FSM has always had socially responsible investment criteria. It excluded investments in companies that were in conflict with its most deeply held beliefs, concerns, and values, including: makers of abortifacients, nuclear weapons, and tobacco products; for-profit health care providers; and others. With its efforts to invest in clean energy under way, in August 2014, FSM turned to the next phase of its climate change strategy: divesting from companies that profit from fossil fuel production.

FSM joined 181 institutions and local governments and 656 individuals in signing the Divest-Invest pledge, a promise to divest its assets from fossil fuel companies. It had successfully used Christian Brothers Investment Services to generate a quarterly list of companies that fail FSM's screens, which O'Shaughnessy says made divestment an objective process for its managers. "We could give them specific companies, making it very cut and dry." FSM is now working with the Aperio Group, a public-equities manager that uses a customized index approach. By the end of 2014, FSM fully implemented this divestment strategy.

SUCCESS FACTOR:

EMPOWER THE RIGHT PEOPLE

FSM's leadership has a deep understanding of and experience with institutional investing and complex financial systems, which gives the congregation confidence in its process. It also streamlines the decision making, allowing the organization to take advantage of opportunities quickly. "Large investment committees can be slow and vexing," says O'Shaughnessy. "Appointing two or three empowered staff members to work with your advisor can give you an advantage and help you reach your goals more quickly."

Shareholder Advocacy

FSM focuses its shareholder advocacy efforts on large corporations that can make a significant difference on the issues it cares about, says Gale Thackrey, FSM's justice-ecological coordinator. The congregation has worked to influence policies at Monsanto, Ameren, Wal-Mart, and Boeing on issues such as social and economic justice, human rights, and energy and water.

It approaches this work in two ways: through information gathering and through collaboration. Before proposing policy changes to a company, FSM requests metrics and data that will help develop solutions. "We want to compare data from company to company and understand what is happening globally," Thackrey says. "For example, we'd want to know how a company is using energy and water and how it fits into the big picture." To amplify its voice, FSM partners with the Interfaith Center on Corporate Responsibility (ICCR), a coalition of nearly 300 faith- and values-driven organizations, and the Midwest Coalition for Responsible Investment (MCRI). "Our partnerships give us millions of dollars of leverage, which makes corporations willing to meet with and listen to us," she says.

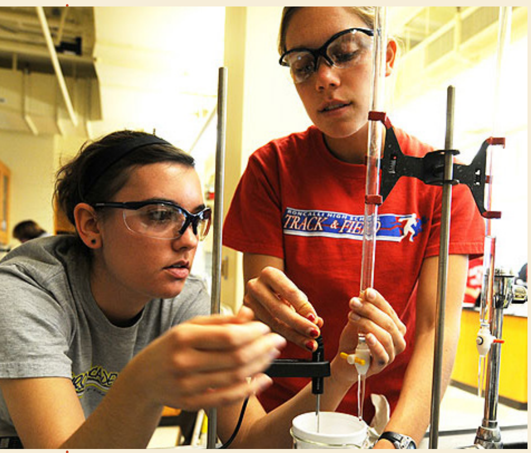
An example of the impact of FSM's shareholder advocacy is its work with Monsanto's Water Team to expand on the company's water indicators data. In 2012, the congregation collaborated with the MCRI to request detailed information on the company's operations and water footprint to see its effect on a regional and global scale, and if it complied with common guidelines for water usage. The following year, the Coalition asked the company to set specific water usage goals and indicators, which would encourage a shift in the sector, amplifying its impact. In 2014, Monsanto became the first agriculture company to sign the World Business Council for Sustainable Development's Water Sanitation and Hygiene (WASH) pledge, which is a commitment to ensure appropriate access to safe water, sanitation, and hygiene for all employees on all premises under company control. "That was a big accomplishment for the Coalition," says Thackrey, "and it really underscored our ability to make a lasting impact."

UNIVERSITY OF DAYTON

TEACHING IMPORTANT LESSONS BY ALIGNING ITS PORTFOLIO WITH ITS VALUES

In June 2014, the University of Dayton, in Ohio, which was founded and is sponsored by the Society of Mary (Marianist) religious order, announced that it would divest coal and other fossil fuels from its $690 million endowment, making it the first American, Catholic university to do so. "As a university, our mission is education, and one of the things we seek to teach our students is how to make a commitment to leadership and service," says Paul Benson, interim provost. "Very often, that type of lesson is abstract, but with divestment we are illustrating concretely how to act according to one's core values."

The university has had a social responsibility investment policy for many years, and its mission-based guidance was in line with that of most Catholic institutions of its size. However, over the last few years, Dayton began to focus on sustainability and realized its policy didn't fully reflect that commitment. "Our president and members of our board's investment committee started a deliberate, 18-month process to understand what sustainability meant from a Catholic



IMPACT IN THE CLASSROOM

The University of Dayton's decision to divest is filtering down to academic and professional programming. Through the Davis Center for Portfolio Management, a group of undergraduate finance students manage $20 million of the university's endowment using a divestment lens. A new student-managed trading group in the School of Business Administration will specifically look at sustainability criteria for a variety of investment instruments. Last fall, the university established the Hanley Sustainability Institute to spur innovation in sustainability education. In tandem with the divestment commitment, students and faculty in the institute are working to create new mechanisms for renewable energy investments in campus operations. The university also offers students the chance to minor in sustainability, energy, and the environment and to earn a master's degree in clean and renewable energy, the first such program in Ohio. Students are also involved in many advanced research projects with faculty and staff in the areas of alternative fuels, energy informatics, and energy storage systems.

perspective," says Benson. "That study drew on expertise from the financial community, from the Society of Mary, and from the policies of other Catholic institutions." Having thorough research that was rooted in the university's values, as well as the strong support of the president, helped create consensus on the board, which deeply explored the question of its fiduciary duty. "We've never looked at the university's investments from an exclusively financial perspective," says Benson. "Our decisions have always been couched in our Catholic values, and having a long history of adhering to our mission allowed us to make a bold decision to divest."

"It boils down to: do you want to have integrity around your mission or do you want to make money at any cost to society?" says board member George Hanley. "And you can divest and still have a return that tracks the overall market."

The board, in consultation with financial advisors, decided to use the Carbon Tracker 200 list to determine which companies to divest from. At the time, only five percent of the university's $640 million in investments were in fossil fuel companies. It also decided to start with investments that would be easiest to exit: domestic fossil fuel equities, from which it divested by September 2014. "Fossil fuel investments outside of the United States will take more time to divest from, but we aim to be finished doing so by the end of 2015," says Benson. The university also expects to be fully divested from fixed-income fossil fuel investments by the end of the year, and has begun to explore new investments in renewable and clean energy.

So far, Dayton's new portfolio has outperformed its former one. "We know that oil prices will go up at some point, and that might shift our performance overall," says Benson. "But the board is comfortable with that and believes that in the long run, the university might do better financially. However, there's no doubt that we'll do better in terms of mission and value."

The university believes that divestment positively impacts its community in many ways. In virtue of being the first Catholic university to divest, it hopes to catalyze serious conversations about ethical and social issues connected with climate change. While climate change can be a divisive issue, the University of Dayton's experience demonstrates that it doesn't have to be. "Because climate change is so pervasive, it forces people to come together to navigate a complex situation," says Benson. "At Dayton, it brought together students, board members, our president, and other groups to learn and collaborate. The opportunity we have to work together more broadly on this topic is really exciting."

SISTERS OF ST. FRANCIS OF PHILADELPHIA

CARING FOR CREATION BY ENGAGING CORPORATIONS IN MEANINGFUL DIALOGUE

Sister Nora Nash at a rally against fracking in Philadelphia in 2011.

Founded in 1855, the Sisters of St. Francis of Philadelphia is committed to "taking the necessary risks to be a healing, compassionate presence in our violent world." This willingness to take risks extends to all the congregation's work, including its efforts to stem climate change through investment, divestment, and shareholder advocacy, says Sister Nora Nash, the congregation's director of corporate social responsibility.

Investment and Divestment

In the 1980s, the congregation appointed a member to lead its corporate social responsibility efforts and began to reevaluate its investment policy and values. "We felt that as shareholders we have a moral and ethical responsibility to monitor our investment portfolio as we direct our resources to justice, peace, and reconciliation," says Nash. The congregation restricts investments in industries that don't align with its mission, including: military and weapons; gambling; tobacco; abortifacients; pornography and adult entertainment; and, to a certain degree, mining, oil, and gas. "We have strengthened our commitment to positive investment criteria by promoting health, human dignity, the common good, employee empowerment, and protecting the environment in all our interactions with corporations," says Nash.

Screening its investments in this way has not hurt the congregation's bottom line. "We are beginning to see proof that responsible investing does do well, and it's not always necessary to be invested in the big companies to see returns," she says.

Red Hill Farm is a community supported agriculture venture that is owned and operated by the congregation.

In addition, the Sisters of St. Francis commits $200,000 a year to below-market loans to community-based organizations with social or environmental goals that may otherwise have difficulty obtaining capital. Its investees include credit unions, community banks, community development financial institutions, loan funds, microfinance lenders, nonprofit housing developers, and more. One specific climate-related impact investment the congregation has made is a $50,000 loan at two percent interest for five years to the Solar and Energy Loan Fund. This initiative helps improve the quality of life for underserved populations in Florida by enabling them to make their homes more energy efficient and to install cost-effective, renewable energy alternatives.

Shareholder Advocacy

While it does not invest in companies that do not align with its values, in some cases the Sisters of St. Francis makes minimal investments in its restricted companies. Using a special fund, it purchases just enough shares in a company to gain entry and access. It then works to start a meaningful dialogue to advocate for business practices that will improve the lives of those who are poor and better protect the earth. "We aim to put a human face on these issues," says Nash.

The Sisters of St. Francis has advocated for a variety of topics but has been very active in climate change, water issues, and fracking. "In Pennsylvania, communities have been fractured by fracking," says Nash, who's been working on the issue with Anadarko, ExxonMobil, Chevron, and Chesapeake Energy. "We continue to urge companies to meet the best standards in drilling because of the unknown long-term health and environmental effects of hydraulic fracturing." The congregation is currently in discussions with Chevron to address all aspects of fracking, but particularly the fact that the company has not provided best management practices or data regarding its environmental and health risks.

SUCCESS FACTOR:

TAKE YOUR TIME

"Start shareholder advocacy slowly by being a good listener," cautions Nash, pictured above with other Sisters of St. Francis at a climate march in New York City in September 2014. "Go to the meetings to learn what's happening, then participate in dialogues or co-file resolutions, or both." She also suggests working with coalitions such as the ICCR, which offers resources and experienced members who can take you under their wing.

The Sisters of St. Francis has been very active in advocating for corporations to transition to a low-carbon economy. For example, it has urged financial institutions to look at their internal operations to see how they are reducing water use and electricity in their own buildings, and how the banks are managing risk related to climate change. "We worked with many financial institutions to ensure that they are not lobbying against climate change or working with the Chamber of Commerce or the American Exchange Legislative Counsel, organizations that do not fully acknowledge climate change. Presently, many are reporting on their greenhouse gas emissions (GHG) and their environmental sustainability goals," says Nash.

The congregation has also partnered with the Sisters of St. Dominic of Caldwell to discuss ExxonMobil's GHG emission reduction goals and how the company plans to adjust its corporate governance to mitigate the risks of climate change. Most of its shareholder advocacy work is done through collaboration with organizations such as the ICCR and the Investor Environmental Health Network. In addition to requesting dialogues and meetings with corporations to put forth requests, Nash and her colleagues file shareholder resolutions, follow up with letters, and vote on proxy ballots.

No matter the method, "the number one criterion for corporate engagement is respect," says Nash. "Each person before us is a human being, and you have to meet them where they are." Nash also cites patience as vital to success in this work. "It is very, very difficult to measure success. I measure it by small inroads. Each time you feel you have awakened the moral voice of the corporation, you've made progress. We want companies to embrace truth—in essence we want them to be transparent and responsible for their impacts and do the right thing for the common good. I always go into a corporate dialogue with hope."

HOW TO GET STARTED

THREE THINGS TO CONSIDER BEFORE YOU INVEST, DIVEST, OR ADVOCATE FOR IMPACT

"Aligning your assets with your values can be a powerful way to create the change you'd like to see in the world," says Cynthia Muller, who leads Arabella Advisors' impact investing practice. But, she says, it takes time and resources to effectively implement impact investing, divesting, and shareholder advocacy. Here are a few things to consider to set your organization up for success:

1 **What are your goals?** What would you like your assets to do? For example, you can use your investments to catalyze a new organization or field or scale innovations, while generating returns. Or you may want to use your assets to incite behavioral change. Once you know what you are aiming for, you can then explore the vehicles that will take you there.

2 **What's your tolerance for risk?** It's important to be clear about what you expect your organization's portfolio to achieve and what is realistic given your organization's resources and the external landscape. With those factors in mind, you can then determine the approach you want to take.

3 **What resources will you need?** How much capacity your organization needs will depend on how you design your strategy. Many of your investment and advocacy needs may be met through trustees, external advisors, or staff members. Alternatively, your organization may choose to partner with a peer organization, coalition, or association that has expertise in these fields. Depending on the purpose and scope of your program, you may need added expertise to obtain deeper knowledge of specific issues, communities, and investment opportunities. You may also require technical assistance to address legal and financial questions, to divest, or to structure, underwrite, and monitor investments. Financial advisors, organizations in your network, intermediary organizations and/or investment funds or pools, and consultants may help you fill capacity gaps.